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C O N F I D E N T I A L SECTION 01 OF 02 FREETOWN 000006

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TAGS: ECON EFIN PGOV SL
SUBJECT: SIERRA LEONE MINISTER OF FINANCE PRESENTS
2008-2010 BUDGET

Classified By: CDA Elisabeth Susie Pratt
Reasons 1.4(b), (d).

SUMMARY

¶1. (U) Minister of Finance and Economic Development David Carew presented the new Sierra Leone administration's medium-term budget to parliament -- covering 2008-2010 -- on December 21, 2007, along with a comprehensive overview of Sierra Leone's economic and financial status and his government's intended policies in the coming three years. Despite the stated goal of fiscal consolidation, the budget has an overall built-in deficit of 3.3 percent of the projected \$1.95 billion GDP, nearly three times the 2007 deficit. If 2008 repeats 2007's 33 percent revenue shortfall, the Government of Sierra Leone will have to reprioritize its programs. Should there be no revenue shortfall, this three-year budget may still be overly ambitious.

FISCAL AND ECONOMIC STATUS

¶2. (U) In his December 21 presentation to Parliament, the Sierra Leone Minister of Finance and Economic Development David Carew projected that the total revenue and budget grants for 2008 would be 1,055 billion Leones (LE), or USD 351,781,000. Total expenditures are budgeted to be LE 1,241 billion (USD 413,636,000). The overall deficit is expected to be LE 191 billion (USD 3,488,000). This deficit represents 3.3 percent of the projected GDP of LE 5,833.5 billion (USD 1,944,483,000), which is significantly more than the estimated 1.2 percent deficit in 2007. In 2007 Sierra Leone experienced a total revenue short fall of 33 percent, which resulted in the need to cut spending by 29 percent from the original budget projections. According to Minister Carew, 44 percent of the budget depends on development assistance.

¶3. (U) According to the budget submission, although GDP continued to grow in 2007, growth was slower than in 2006 or 2007's anticipated 7.4 percent. The minister expected domestic output to reach 6.8 percent in 2007. Inflation rose from 8.3 percent in December 2006 to 15.6 percent by November 2007. The nominal trade deficit remained steady at \$135 million, but shrank in real terms as the export growth rate nearly doubled the rate of import growth.

POLICY GOALS

¶4. (U) The Finance Minister aims to reduce inflation to single digits by the end of 2008 and to cut the primary fiscal deficit to less than one percent of GDP by 2010. However, the projected 2008 basic primary deficit is 2.7

percent, up from 1.4 percent in 2007. The GoSL also intends to raise the GDP growth rate to 6.5 percent and contain money supply growth, while investing more in basic infrastructure, improving the investment climate, bolstering public sector institutions, and strengthening efficiency, transparency, and accountability in public financial management.

NEW INITIATIVES

¶5. (U) The minister announced several new initiatives to improve revenue collection and accountability, including:

-- The new budget provides for a 10 percent increase in basic salaries for public workers (civil servants, teachers, police, military) and pensioners, along with a five percent annual cost of living adjustment. The budget also includes 4,500 new teachers and 400 new police and prison officers.

-- The GoSL intends to address inefficiencies in the National Revenue Authority (NRA) to improve revenue collection and reform tax assessment structures that adversely affect business. In particular, the GoSL intends to diversify the tax base instead of overtaxing certain segments of the population.

-- The government will introduce Taxpayer Identification Numbers to facilitate a tax assessment and collections tracking system.

-- A broad Goods and Services Tax (GST) will replace the current Sales, Restaurant, Entertainment, and Message Taxes in January 2009.

-- The Ministry of Finance has charged the NRA with

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completion of a newly-approved Currency Reporting Form for travelers entering or leaving Sierra Leone with more than USD 10,000 in cash.

-- Foreign visitors must be issued visas on accountable visa foils, which will improve visa fee collection. The use of "rubber stamp" visas hampered accountability by obscuring any correlation between the numbers of rubber stamped visas issued and the amount of fees collected.

-- Expatriates and consultants working in Sierra Leone will have to start paying taxes, even if their salaries are paid by development partners. (Note: This is a reinterpretation and clarification of existing law, not new legislation. End Note)

-- The GOSL plans a new levy on timber and "dimension stone" exports, along with ending the current suspensions on timber and dimension stone production and export. Dimension stones are natural stones or rocks that can be fabricated to specific sizes or shapes and are used in home improvements, historic preservation, building facades, and other construction. The minister also proposed resuming the export of geological sample materials, which is vital to encouraging foreign firms to invest in the extractive industry

INFLATED REVENUE PROJECTIONS

¶6. (C) According to a UK technical assistant working with the Ministry of Finance, the budget revenue projections were provided by the National Revenue Authority (NRA). In 2007 only 81 percent of projected domestic revenue and 49 percent of projected budget grant income were actually received. Given this background, the Finance Ministry apparently considers current NRA budget projection to be highly inflated and has carefully prioritized spending.

¶7. (U) Central government salaries and government operations will be the GoSL's primary funding concerns, followed by supporting energy needs. Poverty reduction initiatives (roughly a quarter of total planned expenditures) will fall behind if there is a revenue gap.

¶8. (C) COMMENT: Like many of President Koroma's initiatives, the budget goals are overly ambitious, if well intentioned. Unless proposed tax reforms take effect quickly enough to generate significant revenue, it seems unlikely the GoSL will be able to invest in many of the proposed projects while still exercising fiscal restraint. Since the GoSL adopted a cash budget management system (pay as you go) in April 2007 per IMF guidelines, future budget cuts are more probable than significant deficit spending. The three-year budget plan is consistent with the promises President Koroma made during his October 5, 2007 parliamentary opening speech, in which he asked for three years to provide measurable results of his presidency. The clock is ticking. END COMMENT.

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